

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION INVESTMENT COMMITTEE

MINUTES OF MEETING OPEN SESSION

June 13, 2011

The Investment Committee met on Monday, June 13, 2011 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 9:15 a.m. and the following members were present:

George Diehr, Chair
Henry Jones, Vice Chair
John Chiang
Richard Costigan
Dan Dunmoyer
Rob Feckner
JJ Jelincic
Bill Lockyer, represented by Steve Coony
Priya Mathur
Louis F. Moret
Tony Oliveira
Ronald Yank, represented by Greg Beatty

Terry McGuire represented John Chiang

AGENDA ITEM 2 - APPROVAL OF MAY 2011 MEETING MINUTES

On **MOTION** by Mr. Jones, **SECONDED** and **CARRIED** that the May 16, 2011 Open Session minutes be approved as presented.

AGENDA ITEM 3 – INVESTMENT POLICIES

a. Adoption of Real Assets Policy – Real Estate Program

Ted Eliopoulos, Senior Investment Officer, and Mark Bullen, Investment Officer, presented the item. Michael Schlachter, Wilshire Consulting, and Paul Mouchakkaa, Pension Consulting Alliance, were available to respond to questions from the Committee.

In May 2011, the Investment Committee reviewed the proposed Real Estate Program component of the Real Assets Policy and the Chair directed staff to revise the policy for consideration at the June Committee meeting.

Staff presented the revised Real Estate Program component and highlighted changes relevant to removal of the "waiver" clause, interim portfolio limits, and incorporation of specific related policies to streamline and simplify the policy. Staff also recommended repeal and incorporation of the current stand-alone Agricultural Land Real Estate Program policy. Changes were also recommended to the Real Assets parent policy and glossary to effectuate revisions to the Real Estate Program component.

On **MOTION** by Mr. Jelincic, **SECONDED** and **CARRIED** to adopt the Statement of Investment Policy for Real Assets – Real Estate Program.

b. Revision of Liquidity Program Policy

Curtis Ishii, Senior Investment Officer, reported that, inadvertently, the Liquidity Policy adopted by the Committee in May 2011 did not reflect all of the updated targets and ranges for the program. The updated targets and ranges, including U.S. Treasury Maturities, have been added to the policy.

Michael Schlachter, Wilshire Consulting, was available to respond to questions from the Committee.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve the revised Statement of Investment Policy for Liquidity Program.

AGENDA ITEM 4 – CONTRACTS

a. Real Estate Board Investment Consultant Request for Proposal (RFP)

Kami Niebank, Division Chief, reported that the RFP process for the Real Estate Board Investment Consultant will begin in July 2011 and conclude in March 2012, and described the RFP selection process.

The Real Estate Board Investment Consultant provides specialized professional assistance regarding strategy and policy analysis, performance analysis and monitoring, and independent advisory services to the Investment Committee.

The Chair directed staff to:

- Include a statement in the Performance Analysis and Monitoring section of the services to be provided that the consultant explain deviations from asset class benchmarks and that the attribution analysis be explicit
- Allot time for in-depth interviews of the candidates

On **MOTION** by Mr. Moret, **SECONDED** and **CARRIED** to approve the services to be performed and the competitive selection process for the Real Estate Board Investment Consultant, as amended.

b. Investment Proposal Solicitation Process

Kami Niebank, Division Chief, presented the item.

In April 2011, the Committee approved a Global Equity external investment manager solicitation method to establish a transparent and flexible avenue by which Investment Managers could be engaged through the use of the Investment Proposal Tracking System (Portal).

Staff requested approval to use the alternate solicitation method for all Investment Manager proposals received through the Portal. This demonstrates consistency of process and Portal utilization across the Total Fund. Prior to the award of contracts, staff will seek Committee approval for the Investment Managers selected by staff.

On **MOTION** by Mr. Jones, **SECONDED** and **CARRIED** to approve the use of the alternate solicitation method for all Investment Manager proposals received through the Investment Proposal Tracking System.

AGENDA ITEM 5 – ALTERNATIVE INVESTMENT MANAGEMENT (AIM) PROFESSIONAL STAFF DELEGATION OF AUTHORITY

Joseph Dear, Chief Investment Officer, presented the revised AIM Delegation Resolution to Professional Staff, which will formalize transfer of management and oversight authority from the Chief Investment Officer to the new Senior Investment Officer-AIM, Réal Desrochers.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to adopt the proposed Delegation Resolution for AIM (Delegation No. 07-02-INV, revised June 13, 2011).

AGENDA ITEM 6 – MANAGER DEVELOPMENT PROGRAM (MDP) – MANAGER TRANSITION

Eric Baggesen, Senior Investment Officer, presented the item. Andrew Junkin, Wilshire Consulting, was available to respond to questions from the Committee.

Staff highlighted the history of the MDP program from 2000 to present, including creation of MDP I and MDP II and adoption of the MDP Transition Policy. Stux Capital Management was funded through the MDP I program in February 2004. Staff provided an update on Stux performance and recommended that Stux be transitioned to the Mainstream Domestic Equity program.

On **MOTION** by Mr. Jones, **SECONDED** and **CARRIED** to:

- 1. Approve Stux Capital Management for transition from MDP to Mainstream Domestic Equity program via the exemption from competitive bidding process in order to meet CalPERS contracting policies
- 2. Approve the use of an annual review contract for Stux Capital Management

AGENDA ITEM 7 – LEGISLATION

a. AB 1151 (Feuer) - Fiduciary Determinations for Iran Divestment

Danny Brown, GOVA Chief, presented the item.

Existing law allows the CalPERS Board of Administration (Board) to take action as described in the California Public Divest from Iran Act (Act) when it determines such action would be consistent with its fiduciary duties as described in the California Constitution. The Act also establishes an ongoing review process for CalPERS to engage and monitor companies with investments in Iran that are subject to the Act.

This bill requires the Board not to invest, or to divest, unless it determines, in a public hearing of the full Board, that such action would be a breach of its fiduciary duties. The bill also requires the Board to make additional findings in public meetings and make additional public notices prior to meetings.

Staff recommended and presented rationale for an oppose position.

On **MOTION** by Mr. Jelincic, **SECONDED** and **CARRIED** to oppose AB 1151, as amended May 5, 2011.

Mr. Beatty abstained.

b. SB 903 (Anderson) - Fiduciary Determinations for Iran Divestment

Danny Brown, GOVA Chief, presented the item.

This bill requires the Board not to invest, or to divest, unless it determines, in a public hearing of the full Board, that such action would be a breach of its fiduciary duties.

Staff recommended and presented rationale for an oppose position.

On **MOTION** by Mr. Costigan, **SECONDED** and **CARRIED** to oppose SB 903, as introduced.

Mr. Beatty abstained.

AGENDA ITEM 8 – TOTAL FUND

a. CalPERS Total Fund Quarterly Report

Michael Schlachter and Andrew Junkin, Wilshire Consulting, provided a 2011 first quarter Total Fund Report on the performance of the Public Employees' Retirement Fund. Executive summaries were also provided for investment performance of the Affiliate Funds, Legislators' Fund, Employer's Retiree Benefit Trust, and the Supplemental Income Plans.

It was noted that CalPERS generated a total fund net return of 4.1% for the quarter and 12.9% for the 12-month period ending March 31, 2011. The total fund composite beat its actuarial rate (1.9%) for the quarter as well as the one-year period, but continued to lag over longer term periods.

The meeting recessed from 11:10 to 11:30 a.m.

Paul Mouchakkaa, Pension Consulting Alliance (PCA), provided a review and assessment of the report as it related to the Real Estate Program performance through March 31, 2011. The total Real Estate portfolio produced a 5.8% return during the quarter and a 2.7% return over the trailing year compared to the Policy Index returns of 4.9% and 15.9%, respectively.

Mike Moy, PCA, provided an executive summary of the Alternative Investment Management (AIM) portfolio performance. AIM outperformed the Long-Term Policy Index by 1.8%, but underperformed the Policy Index by 1.4% over the latest 10-year period as of March 31, 2011.

The Committee accepted the quarterly reports.

b. Risk Management Quarterly Update

Farouki Majeed, Senior Investment Officer, and Rick Roth, Senior Portfolio Manager, provided a quarterly update on Total Fund risk management for the quarter ending March 31, 2011. The report included information regarding:

- Total Fund and Asset Class Volatility and Trends
- Currency Risk
- Concentration Measures
- Leverage
- Counterparty Exposure
- Liquidity

The Committee accepted the quarterly update.

The meeting recessed from 12:20 to 1:05 p.m.

AGENDA ITEM 9 - PROGRAM UPDATES

a. Global Equity – Internal Equity Brokerage: Process and Results

In October 2008, staff presented a set of modifications to establish a more rigorous process to evaluate its agency brokerage relationships and allocate trading activity. The Broker Evaluation Process was developed by internal equity trading staff and Mosaic Investment Advisors.

Eric Baggesen, Senior Investment Officer, and Don Pontes, Portfolio Manager, were joined by Warren Henderson, Mosaic Investment Advisors, and George Madrigal, Penserra Securities, to provide a process overview and implementation status report.

Staff and consultants concluded that the process modifications have been successful. Execution quality improved while increasing the representation of diverse firms. Challenges will continue to exist, particularly since demand will continue to outstrip CalPERS capacity. This constraint requires a transparent and structured process that focuses on the needed results, while forcing a degree of turnover to create opportunity.

b. Consultant Review of Internal Programs

Michael Schlachter, Wilshire Consulting, presented the items. Curtis Ishii, Senior Investment Officer, and Eric Busay, Portfolio Manager, were available to respond to questions from the Committee.

As part of Wilshire's contractual requirement to periodically review all of the internal asset management functions, Wilshire conducted an on-site review of the internal Commodities Program and Currency Management Program teams' personnel, investment process, and resources. The report findings were presented.

Commodities Program

Wilshire believes that staff has demonstrated the ability to both effectively and efficiently manage CalPERS commodity portfolio. The investment philosophy of the Commodity Program is appropriate to CalPERS needs and objectives, and plays an important role in the overall Inflation-Linked portfolio.

Currency Management Program

Wilshire believes that staff has demonstrated the ability to both implement the passive currency hedge and to execute cost-effective spot transactions. In addition, Wilshire recommended that the Committee encourage staff to continue to explore their theories on the value of currency active management as a precursor for a full-scale internal program that may add value to the total portfolio.

The Committee accepted the annual reports.

c. Inflation-Linked Asset Class (ILAC)

There were no items to report.

d. Global Equity – Corporate Governance

Treasurer Representative Steve Coony presented a letter from the State Treasurer to CalPERS requesting that staff and members of the Investment Committee develop a formal corporate governance policy on corporate political campaign spending.

Anne Simpson, Senior Portfolio Manager, reported on recent efforts by Corporate Governance staff regarding this issue.

The Chair directed staff to prepare or revise appropriate policy to address corporate political campaign spending for presentation at a future Policy Subcommittee meeting.

e. Affiliate Investment Programs

There were no items to report.

AGENDA ITEM 10 – ACTIVITY REPORTS

The Committee accepted the following Activity Reports:

- a. Quarterly Roadmap Progress Report Joseph Dear, Chief Investment Officer, presented the report which listed achievements from January through May 2011, and highlighted upcoming milestones, risks and issues anticipated for the first quarter of fiscal year 2011-12.
- b. Quarterly Target Operating Model Update Janine Guillot, Chief Operating Investment Officer, provided an overview of the Target Operating Model key focus areas, sequence of major initiatives, major accomplishments and future key deliverables.
- c. Consolidated Investment Activity Report
- d. Chief Operating Investment Officer's Status Report

AGENDA ITEM 11 – AGENDA AND CALENDAR

The Committee accepted the following:

- a. Draft agenda for August 15, 2011
- b. Draft agenda for the August 15, 2011 Environmental, Social, and Governance Workshop
- c. Rolling Annual Agenda Item Calendar

AGENDA ITEM 12 – PUBLIC COMMENT

There were no comments from the public.

The meeting was adjourned at 2:35 p.m.

The next Investment Committee meeting is scheduled for August 15, 2011 in Sacramento, California.

ANNE STAUSBOLL
Chief Executive Officer